

## Message Text

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ORIGIN TRSY-04

INFO OCT-01 EUR-12 NEA-10 IO-13 ISO-00 EB-08 STR-04  
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DRAFTED BY TREASURY:EBARBER  
APPROVED BY EB/OT/GCP:SAHMAD  
NEA/PAB:JPMULLIGAN  
STR:JGREENWALD  
COMMERCE:DGARDNER  
TREASURY:CDALLARA  
NEA/RA:RPRICKETT  
AGRICULTURE:JBENSON  
OLABOR:DWANNAMAKER  
EB/OMA:CCUNDIFF

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FM SECSTATE WASHDC  
TO AMEMBASSY ISLAMABAD  
USMISSION GENEVA  
INFO USDEL MTN GENEVA  
USMISSION OECD PARIS

C O N F I D E N T I A L STATE 068485

C O R R E C T E D COPY (PARA 6 LINE 1 OMITTED)

E.O. 11652: GDS

TAGS: EFIN, ETRD, PK

SUBJECT: PAKISTAN IMPORT SURCHARGE AND IMF STANDBY

REFS: (A) 76 ISLAMABAD 5887 (B) 76 ISLAMABAD 6306  
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(C) 76 ISLAMABAD 7557.

SUMMARY: IMF STAFF REPORT CONCERNING PAKISTAN'S REQUEST  
FOR A STANDBY ARRANGEMENT NOTES THAT GOP IMPOSED 10 PER-  
CENT IMPORT SURCHARGE AS PART OF ITS 1976-77 BUDGET, AND  
EXTENDED AN EXISTING MARGIN REQUIREMENT TO COVER FINANCING  
OF RAW MATERIALS IMPORTS. WASHINGTON AGENCIES ARE CONCERNED

ABOUT GATT STATUS OF THESE ACTIONS. U.S. EXECUTIVE DIRECTOR OF IMF EXPRESSED DISQUIET OVER CERTAIN PAKISTANI IMPORT POLICIES, INCLUDING THE SURCHARGE, IN BOARD MEETING AND WAS SUPPORTED BY SOME OTHER DIRECTORS. END SUMMARY.

1. IMF EXECUTIVE BOARD ON MARCH 9 TOOK UP PAKISTANI REQUEST FOR A NEW STANDBY ARRANGEMENT IN THE SECOND CREDIT TRANCHE. IMF STAFF REPORT PREPARED IN CONNECTION WITH THIS REQUEST (IMF DOCUMENT EBS/77/58) NOTED THAT PAKISTAN INSTITUTED A 10 PERCENT IMPORT SURCHARGE ON A WIDE RANGE OF IMPORTS AS REVENUE MEASURE IN BUDGET YEAR BEGINNING LAST JULY. WE UNDERSTAND SURCHARGE HAS NOT BEEN NOTIFIED IN GATT.

2. AT MARCH 9 MEETING, U.S. EXECUTIVE DIRECTOR (USED), WHILE SUPPORTING THE STANDBY AND NOTING THAT SOME PROBLEMS ARE BEYOND PAKISTAN'S CONTROL, NEVERTHELESS EXPRESSED DISQUIET OVER CERTAIN PAKISTANI ECONOMIC POLICIES INCLUDING THE RESTRICTIVE IMPORT SYSTEM AND SPECIFICALLY THE NEW IMPORT SURCHARGE. HE EXPRESSED HOPE THAT PAKISTAN WILL MOVE TOWARD A MORE FLEXIBLE EXCHANGE RATE POLICY AND A MORE LIBERAL IMPORT REGIME.

3. SOME OF USED'S CONCERNS REGARDING GOP TRADE RESTRICTIONS WERE ECHOED BY DIRECTORS FROM FRANCE, BRITAIN, ;-, \$ AUSTRALIA, AND BY FUND STAFF SPOKESMAN. STAFF SPOKESMAN, HOWEVER, WENT ON TO EXPLAIN IN BOARD DISCUSSION THAT HIS REMARKS MUST BE QUALIFIED BY ACKNOWLEDGEMENT OF FACT THAT PAKISTAN STATES THE SURCHARGE WAS INTENDED AS A CONFIDENTIAL

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REVENUE MEASURE, AND ALSO BY ACKNOWLEDGING THAT GOP HAS RECENTLY EXPANDED ITS LIST OF IMPORTABLE GOODS. PRIVATELY, IMF STAFF TOLD USED THAT THEY WERE SOMEWHAT CONSTRAINED IN CRITICIZING THE SURCHARGE BY CONSIDERATIONS JUST MENTIONED AND ALSO BY THE FACTS THAT A) SURCHARGE WAS IMPOSED AFTER AN EARLIER STANDBY HAD EXPIRED AND B) THE NEW STANDBY REPRESENTS ONLY A SMALL NET ADDITIONAL AVAILABILITY OF FUND RESOURCES, ABOVE AMOUNTS SCHEDULED TO BE REPAID FOR DRAWINGS UNDER PREVIOUS STANDBYS.

4. EXECUTIVE DIRECTOR FOR PAKISTAN (AL-ATRASH OF SYRIA) TOOK NOTE OF COMMENTS IN BOARD MEETING BUT MADE NO EXPLICIT RESPONSE TO U.S. REMARKS ON TRADE POLICY.

5. FYI-IMF STAFF REVIEW ALSO NOTED THAT A PRE-EXISTING MARGIN REQUIREMENT ON THE FINANCING OF CONSUMER GOODS IMPORTS HAD BEEN EXTENDED TO RAW MATERIALS. WE ARE NOT CLEAR AS TO EXACT DETAILS OF PRESENT OR PREVIOUS MARGIN REQUIREMENTS AND THEIR PRACTICAL EFFECTS ON TRADE. WE

ASSUME THIS IS MERELY A MARGIN REQUIRED FOR FINANCING IMPORTS, BUT CONTEXT OF LETTER FROM PAKISTAN FINMIN TO IMF, WHICH APPEARS AS AN ANNEX TO THE IMF DOCUMENT MENTIONED IN PARA L1, LEAVES ROOM FOR DOUBT AS TO WHETHER THIS MIGHT BE A PRIOR DEPOSIT SCHEME AND THUS A TRADE POLICY MATTER. END FYI.

6. COMMENT: USG IS NOW ENGAGED IN A CONTINUING EFFORT TO INCREASE IMF AWARENESS OF AND ATTENTION TO GATT IMPLICATIONS OF FUND DECISIONS ON TRADE POLICY QUESTIONS. THIS IS SECOND SUCH CASE U.S. HAS RAISED IN FUND. FIRST, IN FEBRUARY, INVOLVED URUGUAY; WE ALSO ARE WORKING THROUGH OECD, GATT CONSULTATIVE GROUP OF 18, AND MTN FRAMEWORK GROUP TO FIND WAYS OF TIGHTENING INTERNATIONAL DISCIPLINE OVER TRADE MEASURES TAKEN FOR BOP REASONS. END COMMENT.

7. ACTION REQUESTED: EMBASSY AND MISSION ARE REQUESTED  
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TO FORWARD ANY DETAILS THEY MAY HAVE ON SURCHARGE AND MARGIN REQUIREMENT, IN ADDITION TO THAT REPORTED REFTELS, FOCUSING ON NATURE OF MARGIN REQUIREMENT AND LIKELY TRADE EFFECTS OF THESE MEASURES, AND TO MAKE INFORMAL INQUIRIES AS TO GOP'S INTENTIONS TO NOTIFY SURCHARGE IN GATT.THE SURCHARGE, AND MARGIN REQUIREMENT IF RELEVANT, WOULD BE LIKELY TOPICS FOR DISCUSSION AT A POSSIBLE FULL-SCALE BOP COMMITTEE CONSULTATION WITH PAKISTAN NEXT FALL.

CHRISTOPHER

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## Message Attributes

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